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SUBJECT: ACTING A/S NELSON MEETS WITH LATVIAN FINANCE  
MINISTER

11. (SBU) In his April 26 meeting with Acting A/S David Nelson on the margins of the IMF/World Bank Spring Meetings, Finance Minister Einars Repse outlined Latvia's plans for a 7% of GDP fiscal deficit in 2009 and 3% deficit in 2010 in hopes of meeting IMF conditions and establishing a sustainable basis for Latvia's economic recovery. Repse argued that the 7% deficit for 2009 is realistic as Latvia has only half of 2009 remaining to react to the worsened economic situation. Additionally, a 7%-3% deficit scenario as opposed to the IMF-proposed 5%-5% deficit scenario allows Latvia to remain on track for Euro accession by 2012 (even as he noted his concerns about the Euro's stability). Other than non-negotiable expenses, like international debt repayments and EU payments, and wages (which were cut by 15% and subsequently an additional 20%), Repse plans to cut all other government expenditures by 40% to reach a 7% deficit target in 2009. This may include closing schools, hospitals and perhaps the Latvian mission in Afghanistan. Whether the IMF or European Commission (EC) will back Latvia's proposal is still unclear. He said other donors were waiting on IMF approval before providing financing, as IMF financing constitutes only one-seventh to one-tenth of the total financing. He said the EC, Sweden and the Czech Republic, have offered Latvia a total of 7.5 billion Euros over 3 years.

12. (U) Repse rejected the idea of Euroization outside of ERM-II, saying it was important for Latvia's Central Bank to have a voice within the European Central Bank system and to not be a second-tier country. Rather, he pointed to the "positives" in Latvia's current situation, including the beneficial effects of wage decreases, which help Latvia's competitiveness, and the need for structural reform and consolidation, especially in the health sector. He noted that Latvia has needed structural reforms for a while but that during the boom times, it was not politically feasible and instead the government and country went on a spending spree. Now, while it is painful, he argued that reforms are more politically acceptable, and that people understand the need for IMF conditionality, as it is Latvia asking the IMF for assistance.

13. (U) Repse and Latvian Ambassador to the U.S. Andrejs Pildegovics also expressed their concern about proposed Senate legislation that designates Latvia as an offshore secrecy jurisdiction. They provided a copy of their letter to Treasury Secretary Geithner on this issue and asked for State Department assistance as well. They noted that in their talks with Treasury, they understood that the Administration may propose its own tax haven legislation that does not include a "list approach" to the issue.  
CLINTON